

## Message Text

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44

ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

SP-03 AID-20 EB-11 NSC-07 RSC-01 CIEP-03 TRSE-00

SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-03

INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03

PA-04 PRS-01 DRC-01 /154 W  
----- 043622

O R 121544Z AUG 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4349

INFO AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY VIENNA

AMEMBASSY BERN

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PASS TREASURY FOR MCCAMEY

EO 11652: NA

TAGS: EFIN, GW

SUBJECT: BANK FAILURE: BASS AND HERZ

REF: BONN A-398

1. THE SMALL FRANKFURT BANK OF BASS AND HERZ HAS TODAY  
TURNED IN ITS BANK LICENSE AND ANNOUNCED ITS FAILURE.  
THE FINANCE MINISTRY AND THE ASSOCIATION OF GERMAN BANKS  
TELL US THAT THE CLOSURE OF BASS  
AND HERZ IS IN NO WAY COMPARABLE TO OR A CONSEQUENCE  
OF THE HERSTATT FAILURE. BASS AND HERZ WAS A VERY  
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SMALL PRIVATE BANK WITH A VOLUME OF BUSINESS OF ONLY

DM 70-80 MILLION AS COMPARED TO DM 2.1 BILLION IN THE HERSTATT CASE. UNLIKE HERSTATT, BASS AND HERZ WAS NOT CLOSED BY THE GERMAN BANKING SUPERVISORY AUTHORITY BUT ON ITS OWN INITIATIVE HANDED IN ITS BANKING LICENSE. ITS FAILURE WAS NOT THE RESULT OF FOREIGN EXCHANGE SPECULATIONS BUT RATHER CONNECTED WITH THE BANKRUPTCY OF ITS PRINCIPAL OWNER, HANS ULRICH GRAF SCHAFFGOTSCH, AND THE FINANCIAL DIFFICULTIES OF THE SCHAFFGOTSCH BERGWERKSGESELLSCHAFT.

2. BASS AND HERZ DID NOT HAVE A LARGE VOLUME OF EITHER PRIVATE OR INDUSTRIAL DEPOSITS. THE MEMBERS OF THE LIQUIDITY CONSORTIUM OF THE GERMAN BANKS WILL ASSURE THAT ALL PRIVATE DEPOSITORS, OTHER THAN MEMBERS OF THE SCHAFFGOTSCH GROUP, ARE PAID IN FULL. INTERBANK DEPOSITS HELD WITH BASS AND HERZ WERE RELATIVELY SMALL, AMOUNTING ACCORDING TO THE FINANCE MINISTRY TO ONLY APPROXIMATELY DM 16 MILLION. THEY WERE HELD BY A SMALL NUMBER OF VERY LARGE BANKS, EACH OF WHICH WILL HAVE NO DIFFICULTY IN ABSORBING THE DM 3-6 MILLION LOSS RESULTING TO IT FROM THE BASS AND HERZ CLOSURE. THE BANKS INVOLVED ARE NOW ATTEMPTING TO NEGOTIATE AN AGREEMENT TO LIQUIDATE BASS AND HERZ AND AVOID FORMAL BANKRUPTCY PROCEDURES.

3. BASS AND HERZ APPARENTLY ALSO GUARANTEED A NUMBER OF CREDITS BY SMALL AUSTRIAN AND SWISS BANKS AS WELL AS ONE CANADIAN FINANCIAL INSTITUTION TO SOME OF THE COMPANIES OWNED BY SCHAFFGOTSCH GROUP. THESE BANKS MAY NOW HAVE TO FACE SOME LOSSES AS THE SCHAFFGOTSCH COMPANIES THEMSELVES FAIL AND THE BASS AND HERZ GUARANTY LOSSES ITS VALUE.  
HILLENBRAND

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